

BARAGA VILLAGE/KEWEENAW BAY RESERVATION
WASTE WATER AUTHORITY

AUDITED FINANCIAL STATEMENTS

February 29, 2004

Auditing Procedures Report

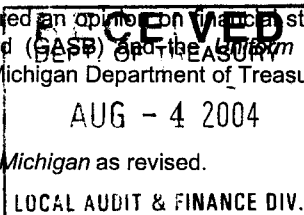
Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Baraga Village/ Keweenaw Bay Res. Waste Water Authority	County Baraga
Audit Date 2/29/04	Opinion Date 7/29/04	Date Accountant Report Submitted to State: 8/2/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Joseph M. Daavettila, P.C., CPA			
Street Address 417 Shelden Avenue		City Houghton	State MI
Accountant Signature <i>Joseph M. Daavettila CPA</i>		ZIP 49931	Date

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JOSEPH M. DAAVETILA, P.C.

Certified Public Accountant

417 Sheldon Avenue, P.O. Box 488

Houghton, Michigan 49931

July 29, 2004

Baraga Village/Keweenaw Bay Reservation
Waste Water Authority
Baraga, Michigan 49908

We have audited the balance sheets of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority as of February 29, 2004 and February 28, 2003, and the related statements of revenues, expenses, and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority as of February 29, 2004 and February 28, 2003 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Joseph M Daavetila PC

Certified Public Accountant

BARAGA VILLAGE/KEWEENAW BAY RESERVATION
WASTE WATER AUTHORITY

BALANCE SHEETS

	February 29, 2004	February 28, 2003
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash in bank	\$ 28,836	\$ 11,471
Accounts receivable	<u>11,447</u>	<u>11,044</u>
TOTAL CURRENT ASSETS	\$ 40,283	\$ 22,515
<u>PLANT AND EQUIPMENT</u>		
Wastewater distribution system	\$ 6,285,420	\$ 6,144,692
Less accumulated depreciation	<u>2,542,942</u>	<u>2,361,687</u>
	\$ 3,742,478	\$ 3,783,005
TOTAL ASSETS	<u>\$ 3,782,761</u>	<u>\$ 3,805,520</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and payroll taxes	\$ 34,426	\$ 31,920
Due to other governmental units	148,612	27,681
Current maturities on long-term debt	85,489	78,120
Accrued interest	<u>20</u>	<u>774</u>
TOTAL CURRENT LIABILITIES	\$ 268,547	\$ 138,495
<u>LONG-TERM DEBT</u>		
Installment contract	<u>133,415</u>	<u>214,503</u>
TOTAL LIABILITIES	\$ 401,962	\$ 352,998
<u>FUND EQUITY</u>		
Contributed capital:		
Village of Baraga	\$ 2,480,485	\$ 2,602,235
Keweenaw Bay Indian Community	<u>582,304</u>	<u>610,863</u>
	\$ 3,062,789	\$ 3,213,098
Unrestricted:		
Village of Baraga	\$ 159,005	\$ 119,712
Keweenaw Bay Indian Community	<u>159,005</u>	<u>119,712</u>
	\$ 318,010	\$ 239,424
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 3,782,761</u>	<u>\$ 3,805,520</u>

The accompanying notes to financial statements are an integral part of this statement.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION
WASTE WATER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS

	<u>Year Ended</u>	
	<u>February 29, 2004</u>	<u>February 28, 2003</u>
<u>OPERATING REVENUES</u>		
Charges for services	\$ 309,056	\$ 273,395
<u>OPERATING EXPENSES</u>		
Salaries	\$ 4,975	\$ 5,400
Payroll taxes	381	413
Office supplies	74	-
Operating supplies	22,944	45,856
Contracted services - Village of Baraga	115,455	129,815
Contracted services - other	10,865	53,204
Repairs and maintenance	1,136	11,698
Insurance	3,942	4,759
Utilities	16,101	16,837
Provision for depreciation	181,255	177,067
Equipment rental	7,489	15,378
Miscellaneous expense	389	242
TOTAL OPERATING EXPENSES	\$ 365,006	\$ 460,669
NET INCOME (LOSS) FROM OPERATIONS	(\$ 55,950)	(\$ 187,274)
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest income	\$ -	\$ 1,785
Interest expense	(15,773)	(20,492)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(\$ 15,773)	(\$ 18,707)
NET INCOME (LOSS)	(\$ 71,723)	(\$ 205,981)
Add depreciation on contributed property, plant and equipment which reduces contributed capital	150,309	150,309
INCREASE (DECREASE) IN RETAINED EARNINGS	\$ 78,586	(\$ 55,672)
Retained earnings, beginning of year	239,424	295,096
RETAINED EARNINGS, END OF YEAR	<u>\$ 318,010</u>	<u>\$ 239,424</u>

The accompanying notes to financial statements
are an integral part of this statement.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION
WASTE WATER AUTHORITY

STATEMENTS OF CASH FLOWS

	<u>Year Ended</u>	
	<u>February 29,</u> <u>2004</u>	<u>February 28,</u> <u>2003</u>
<u>CASH FLOWS PROVIDED BY (USED IN)</u>		
<u>OPERATING ACTIVITIES</u>		
Operating income (loss)	(\$ 55,950)	(\$ 187,274)
Adjustments to reconcile net income to cash provided by operating activities - depreciation	181,255	177,067
Changes in assets and liabilities:		
Accounts receivable	(403)	(4,650)
Accounts payable and payroll taxes	2,506	20,265
Accrued interest	(754)	(918)
Due to other governmental units	<u>120,931</u>	<u>14,838</u>
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 247,585</u>	<u>\$ 19,328</u>
<u>CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Interest income	\$ -	\$ 1,785
Payments on installment obligation	(73,719)	(73,360)
Interest paid	<u>(15,773)</u>	<u>(20,492)</u>
CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(\$ 89,492)</u>	<u>(\$ 92,067)</u>
<u>CASH FLOWS PROVIDED BY (USED IN)</u>		
<u>INVESTING ACTIVITIES</u>		
Acquisition of property, plant and equipment	(\$ 140,728)	(\$ 51,735)
NET INCREASE (DECREASE) IN CASH	\$ 17,365	(\$ 124,474)
Cash and cash equivalents, beginning of year	<u>11,471</u>	<u>135,945</u>
Cash and cash equivalents, end of year	<u><u>\$ 28,836</u></u>	<u><u>\$ 11,471</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION
WASTE WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

February 29, 2004 and February 28, 2003

NOTE A - DESCRIPTION OF THE REPORTING ENTITY

ORGANIZATION

The Village of Baraga (Village) and the Keweenaw Bay Indian Community (Community) entered into an agreement on September 27, 1995, for the purpose of creating the Baraga Village/Keweenaw Bay Reservation Waste Water Authority Board. The Authority shall own, operate, and maintain a joint waste water treatment facility and associated system components. The Keweenaw Bay Indian Community and the Village of Baraga shall be equal partners in and shall jointly operate the Waste Water System. The Authority shall employ the Village of Baraga as System Operator to operate and maintain the system and shall pay the Village for such services. This agreement expires January 1, 2100, unless extended by agreement of both parties.

The Authority Board consists of five trustees. Two trustees are appointed by the Baraga Village Council, two trustees are appointed by the Keweenaw Bay Tribal Council, and one trustee appointed by unanimous decision of the four aforementioned trustees. Each trustee serves a three year term. The Authority provides waste water treatment services to the Village of Baraga and the Keweenaw Bay Indian Community. The accompanying financial statements include only the Baraga Village/Keweenaw Bay Reservation Waste Water Authority and do not include any other governmental agencies or departments.

The Baraga Village/Keweenaw Bay Reservation Waste Water Authority began operations September 1, 1996.

NOTE B - SCOPE OF REPORTING ENTITY

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity," the financial statements of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority contain all of the financial activity of the Authority's funds. The Authority is not considered a component unit of either the Village or the Community. Elements considered in determining that the Authority is not a component unit of the Village or the Community are as follows:

1. The Village or the Community are not responsible for the designation of the Authority's management.
2. The Village or the Community do not approve the Authority's annual budget or budget amendments.
3. The Village or the Community do not significantly influence operations.
4. The Village or the Community each appoint two of the five members to the Authority's Board of Trustees.
5. The Village or the Community do not have significant fiscal management responsibilities.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION
WASTE WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

February 29, 2004 and February 28, 2003

NOTE B - SCOPE OF REPORTING ENTITY (CONTINUED)

6. The Village or the Community provide no direct on-going financial support to the Waste Water Authority.
7. The Village or the Community do not hold title to the physical assets of the Authority.

Financial transactions between the Village or the Community and the Authority, reported in the accompanying financial statements, constitute contractual agreements for providing services. The Village and the Community should account for their investment in the Authority, using the Equity method, as required by generally accepted accounting principles.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies of the Baraga Village/Keweenaw Reservation Waste Water Authority:

BASIS OF ACCOUNTING

Basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied. The accounting policies of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority conform to generally accepted accounting principles. The Authority utilized the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

USE OF ESTIMATES IN PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BUDGETARY DATA

The procedures in establishing the budget are as follows:

- a) The Chairman prepares and submits to the Board a proposed operating budget prior to commencement of the fiscal year. The operating budget includes proposed expenditures and means of financing them and is stated on a basis consistent with generally accepted accounting principles.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION
WASTE WATER AUTHORITY BOARD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

February 29, 2004 and February 28, 2003

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
BUDGETARY DATA (CONTINUED)

- b) The Board formally adopts the finalized operating budget at a regular public meeting held prior to the commencement of the fiscal year.
- c) Board administration is authorized to transfer budgeted amounts between line items within departmental budgets with post transfer Board approval.
- d) Formal budgetary integration is employed as a management control device during the year.

No budget was made for this fiscal year.

CASH

Deposits are carried at cost. Deposits are in one financial institution in the name of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority.

SURPLUS FUNDS

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The investment policy as required by Act 196 PA 1997 has been adopted by the Authority. The Authority's deposits and investments are in accordance with statutory authority.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION
WASTE WATER AUTHORITY BOARD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

February 29, 2004 and February 28, 2003

NOTE C - SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)
SURPLUS FUNDS (CONTINUED)

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosure for deposits at year end are as follows:

	<u>Carrying Amounts</u>
Insured (FDIC)	\$ 28,836
Uninsured and Uncollateralized	<u>-</u>
Total Deposits	<u>\$ 28,836</u>

	<u>Bank Balances</u>
Insured (FDIC)	\$ 28,836
Uninsured and Uncollateralized	<u>-</u>
Total Deposits	<u>\$ 28,836</u>

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is valued at historical cost, capitalized and reflected on the balance sheet along with accumulated depreciation. Depreciation is provided using the straight-line method over estimated useful lives. Estimated useful lives range from five to thirty five years.

DUE TO OTHER GOVERNMENTAL UNITS

As of February 29, 2004, the Authority owes the Village of Baraga \$148,612 for expenses incurred by the Village in its role as System Operator.

LONG-TERM DEBT

The Keweenaw Bay Indian Community entered into an installment contract with the First of America Bank and transferred it to the Baraga Village/Keweenaw Bay Reservation Waste Water Authority Board to allow for the Board to pay off the Farmers Home Administration indebtedness on the current system. The principal amount borrowed under the installment obligation was \$700,000. Terms of repayment required monthly payments of \$7,784 which includes interest computed at 5.95%. Maturity date was August 13, 2006. This note was refinanced for \$287,915 with monthly payments beginning May 2003 of \$7,611, which includes interest computed at 3.25%. Maturity date is August, 2006. Scheduled payments of principal and interest per year are scheduled below:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 85,489	\$ 5,844	\$ 91,333
2005	88,309	3,024	91,333
2006	<u>45,106</u>	<u>425</u>	<u>45,531</u>
	<u>\$ 218,904</u>	<u>\$ 9,293</u>	<u>\$228,197</u>

BARAGA VILLAGE/KEWEENAW BAY RESERVATION
WASTE WATER AUTHORITY BOARD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

February 29, 2004 and February 28, 2003

NOTE C - SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

LONG - TERM DEBT (CONTINUED)

On September 1, 1996, the Village of Baraga transferred \$1,373,000 of sewer disposal system revenue bonds to the Baraga Village/Keweenaw Bay Reservation Waste Water Authority which in turn paid off these bonds with the contribution from the Keweenaw Bay Indian Community.

CONTRIBUTED CAPITAL

	<u>Village</u>	<u>KBIC</u>	<u>Total</u>
Capital contributed to the Authority March 1, 2003	\$2,602,235	\$610,863	\$3,213,098
Deduct - depreciation on property, plant and equipment contributed to the Authority	(121,750)	(28,559)	(150,309)
TOTAL CONTRIBUTED CAPITAL AT FEBRUARY 29, 2004	<u>\$2,480,485</u>	<u>\$582,304</u>	<u>\$3,062,789</u>

NOTE D - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains insurance coverage through the Michigan Municipal League which covers each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority.

JOSEPH M. DAAVETILA, P.C.

Certified Public Accountant

417 Sheldon Avenue, P.O. Box 488

Houghton, Michigan 49931

July 29, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Baraga Village/Keweenaw Bay Reservation
Waste Water Authority
Baraga, MI 49908

We have audited the financial statements of Baraga Village/Keweenaw Bay Reservation Waste Water Authority as of and for the years then ended February 29, 2004 and February 28, 2003, and have issued our report thereon dated July 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Baraga Village/Keweenaw Bay Reservation Waste Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under "Government Auditing Standards." However, we noted certain immaterial instances of noncompliance that we have reported to management of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority, in a separate letter dated July 29, 2004.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Baraga Village/Keweenaw Bay Reservation Waste Water Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material

weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority, in a separate letter dated July 29, 2004.

This report is intended for the information of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

Joseph M. Davenport PC

Certified Public Accountant

JOSEPH M. DAAVETILA, P.C.
Certified Public Accountant
417 Sheldon Avenue, P.O. Box 488
Houghton, Michigan 49931

July 29, 2004

The Honorable Chairman and Members
Baraga Village/Keweenaw Bay Reservation
Waste Water Authority
Baraga, MI 49908

Management Letter

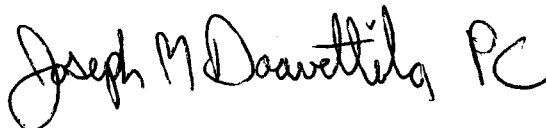
During our examination of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority, we made certain observations of the accounting system upon which we submit the following comments and recommendations:

Administrative Procedures

It was noted in previous years' reports that the minutes of the Board meetings were not always prepared in a timely manner. The minutes are a part of the permanent records of the Joint Waste Water Authority and, as such, should include all required documentation. This has been corrected in this fiscal year.

Payroll tax forms were not filed in a timely manner during this fiscal year. We urge management to take the necessary steps needed to ensure that this problem is corrected as soon as possible.

Should any Board members wish to discuss the audit with us, feel free to contact our office at any time. Thank you for selecting our firm to perform the year end audit.



Certified Public Accountant